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March 22, 2000 **LETTER 1298**

THE MARKET -- A parabolic rise is one in which the item climbs at an increasingly acute angle until finally the item is climbing almost vertically. This is what we've seen in the Nasdaq.

Whenever a stock or a stock average advances and forms a parabolic rising pattern, it's always crucial to see what happens after an initial sharp break. This is where we are now with the Nasdaq, the Nasdaq 100.

The Nasdaq hit a closing high of 5048.02 on March 10. Then we saw a sharp three-day break, a break which took the Nasdaq down to 4582.62 on March 15. The question -- does the Nasdaq have the strength to make it back to, and above its March 10 high -- or has the Nasdaq joined my "top-out parade"?

One of the most difficult procedures in the stock market is to identify the BIG picture. One reason why it's so difficult is that the **market tries to disguise the direction of the primary trend.** In a bull market one of the main disguises is the "wall of worry," the barrage of items, comments and analyses that serve to frighten investors and keep them out of the market.

In a bear market, what I call a continuing "ocean of optimism" serves to keep investors IN the market, happy, hoping and holding, even though the great majority of stocks are heading south.

Have you noticed how few analysts make insightful comments about the main or primary trend of the market? The reason is that the great majority of analysts don't have a clue about the trend, and they cover up their ignorance by touting individual stocks or "what percentage" this or that stock or sector has risen.

One of the techniques I use in order to classify the primary trend is the "top out parade" or the "bottom out parade."

Referring to the top out parade, IF this is a bear market then one by one the main indices and averages will top out, make their highs, and those highs will for the most part stand until the bear market ends.

I'm going to show the top out parade again, and this time I'm going to add the Nasdaq. The exercise will be to see whether any of these market-marks will be bettered.

Mar. 3 DJIA 10367.20; PTI 5155; A-D Ratio -7.21
Mar. 10 DJIA 9928.29; PTI 5135; A-D Ratio -7.82
Mar. 17 DJIA 10595.33; PTI 5135;A-D Ratio -7.45
Dow Yield: 1.46%; Dow Price/Earnings: 22.8
Dow Times Book Value: 6.26% ; PTI 89-day exp. MA: 5186
Percentage of Undervalued Blue-chips: 24%
Gold 34-day MA: 293

A lot of time has gone by since the beginning of this particular top out parade, much more time than at any other bull market top that I have ever seen. But each bull market and each bear market is different as to how it materializes and how it declines. I don't tell the market how to make its moves. I just follow the market and try to make sense out of what's happening.

TOP OUTS

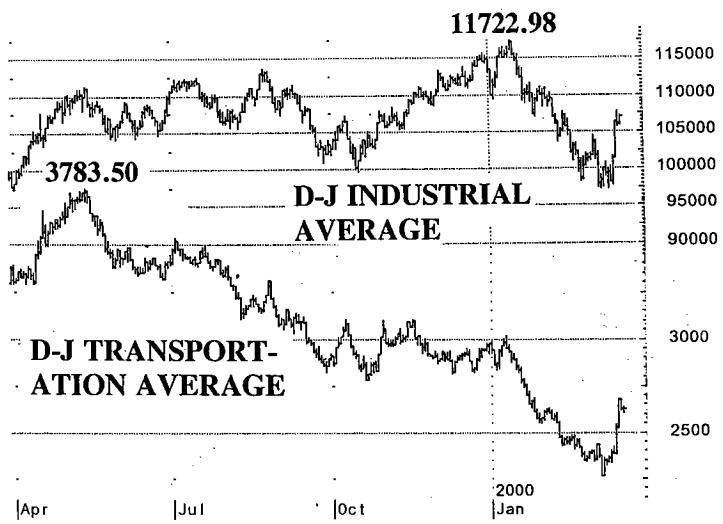
Daily new highs topped out at 631 on October 3, 1997.

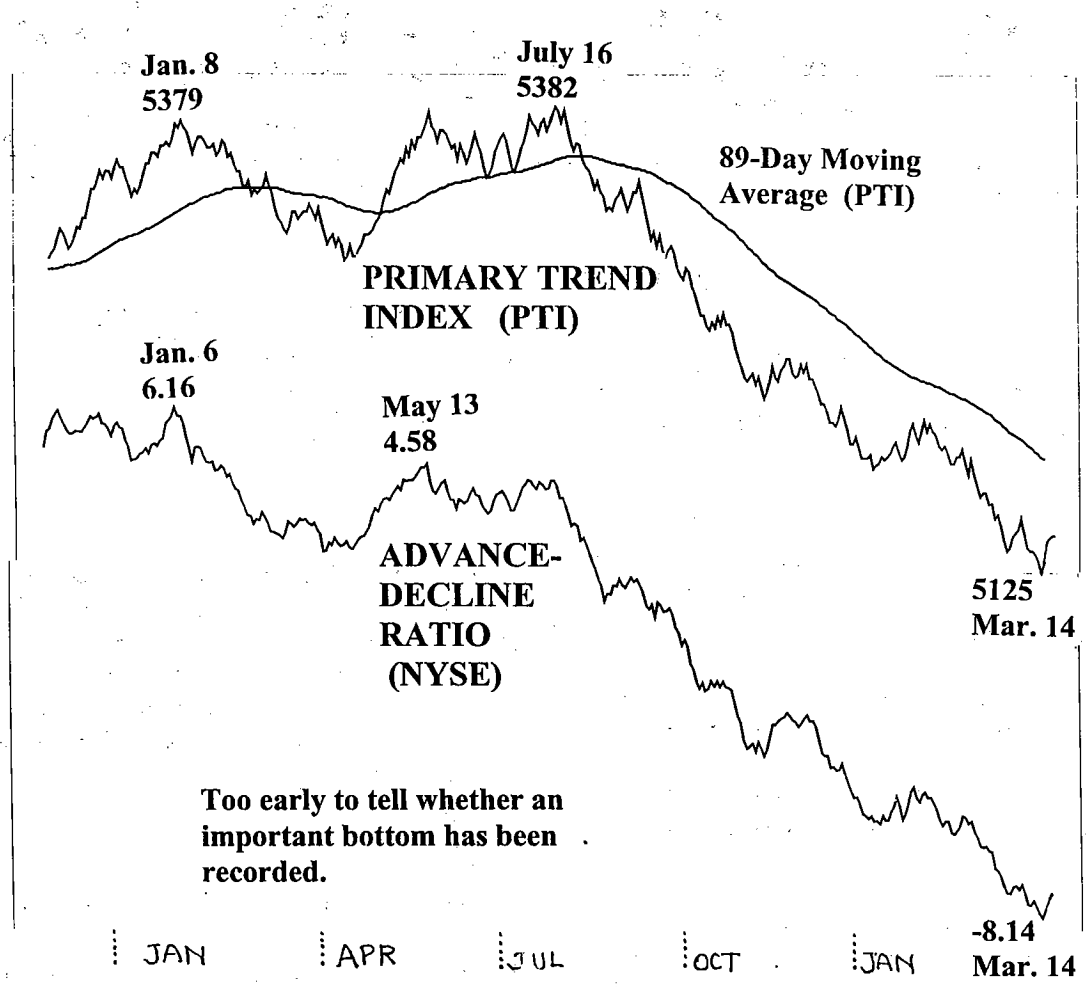
The advance-decline ratio topped out on April 3, 1998 at 13.00.

The D-J Transportation Average topped out on May 12, 1999, at 3783.50.

The NYSE Financial Average topped out on May 13, 1999 at 584.21.

The D-J Utility Average topped out on June 16, 1999 at 333.45.





The NYSE Composite topped out on July 16, 1999 at 663.12.

The S&P Composite topped out on December 31, 1999 at 1469.25.

The D-J Industrial Average topped out on January 14, 2000 at 11722.98

The Nasdaq "may have" topped out on March 15 at 5048.62.

In the meantime, following the extended compression in the advance-decline ratio, a compression which ended on February 28, the market (NYSE) became oversold. This set off a violent rally, starting on March 15.

But surprise, the tech and Internet and biotech stocks either hesitated or did not join in the upside festivities. What I want to see now is how long and how far this oversold rally carries. I want to watch it particularly in reference to the top out parade.

From the standpoint of the big picture, the majority of stocks, not including the techs, nets and biotechs, have taken their initial bear market beating. Now that the public and the funds have loaded up with techs, nets and biotechs, it seems that the bear has turned to these groups.

Conclusion: It's a bear market. In a bear market everybody ultimately loses, and the winner is the person who loses the least.

INVESTMENT POSITION: In life there are always alternatives. The same thing applies in investing and to the stock market.

This is a bear market. You can either believe this or you can disbelieve it. If you're just reading these Letters as literature, then you can disbelieve it (and many people do) and you can play the market, as many people do.

But if you believe that it's a bear market, as I do, then the best policy is to move into a safe position. I think the best or safest position is in bonds, and preferably high quality bonds.

The ten-year T-note is a good choice while waiting out the bear. Or you might want to go further out with 15 or 20

year bonds. Personally, I've moved into a lot of high-quality AA or AAA-rated muni bonds.

There's no sense being too cute or too tricky about living through a bear market. Bonds are your best bet.

I also think that we are heading for a recession either late this summer or more probably after the election. If so, bonds make even more sense, since the Fed will fight the recession tooth and nail, and they'll fight it with declining interest rates.

NOTES & QUOTES: One of the great current mysteries is why the experts and the analysts have stopped talking about the **money supply.** The Fed can't control interest rates. After all, the Fed raised Fed Funds three times and the discount rate once, and lo and behold, the bonds have been rallying ever since.

Do you remember the old "Three Steps and a Stumble" rule? The so-called rule was that whenever the Fed raised any of its rates three times or more, the "Three Steps and a Stumble" rule was triggered. The latest "Steps" rule was triggered on February 2 of this year.

How useful is the "Three Steps" rule? To recount some history, the "Three steps and a Stumble" signal was set off on 3/6/59 and the S&P topped five months later. The next signal came on 12/6/65 and the S&P topped two months later. The next signal was set off on 4/19/68 and the S&P topped seven months later. The next signal occurred on 5/4/73 and the S&P topped four months earlier. The next signal came on 10/26/77 and the S&P had topped 13 months earlier. The next signal occurred on 11/14/80 and the S&P topped at the same time. The next signal came on 2/24/89 and the S&P topped 16 months later. The next signal occurred on 11/1/94 but the S&P had topped nine months earlier. The most recent signal came on 2/2/00 but the S&P had recorded its high of 1469.25 on Dec. 31, 1999, three months prior to the signal.

One thing the Fed can't control is the money supply. And in his recent speech in front of Congress at his Humphrey-Hawkins session, Greenspan never mentioned the money supply and not one of the Senators ever questioned the Green man about it. Of course, the classic definition of inflation is "too much money chasing too few goods." The Fed alone has been responsible for the surge in housing prices, the upward rush in certain areas of the stock market and the rise in price in dozens of other areas (try buying a decent necktie for less than 25 bucks).

Greenspan appeared confused and almost apologetic at his last appearance before Congress and for a change the Congressmen didn't scrape and genuflect in front of him -- rather they questioned him and challenged him on his policies. As columnist Caroline Baum put it, "maybe a fourth term was one term too many" for Greenspan. Greenspan's answer to questions were so defensive and so convoluted that I thought the session was almost embarrassing.

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Are stocks "expensive"? The only way of knowing is to compare today's values with average values of the past. The statistics below do just that. And yes, stocks today are expensive -- really, really expensive.

	Typical at market bottoms	Typical at market tops	Now	Percent above typical market highs
Price-to-earnings:	8	20	28	40%
Price-to-cash flow	5	10	16	60%
Price-to-sales	0.6	1.0	1.6	60%
Price-to-book	1	2	5	150%
Price-to-dividends	16	37	69	86%
Dividend yield	6%	3%	1.5	
Market cap to GDP	30%	70%	130%	85%
T-bills to dividend yield	1.75	2.25	3.50	55%

Consider this: For every dollar you put in the Dow, you're now buying 4.3 cents in earnings. No, I'm not talking about dividends, I'm talking about earnings. The P/E on the Nasdaq 100 is now about 140. So every dollar you spend on the Nasdaq 100 buys you 0.7 cents of earnings or about a sixth of what you get when you buy the still-expensive Dow. So the Dow really isn't a bargain, but the Nasdaq 100 is a flight of fancy. One day sober investors will look back on this period and wonder how it could have happened.

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Margin debt on the NYSE is already sky-high, but that doesn't stop the speculators. In February loans rose another 8.9% to $265 billion. That followed a 6.5% rise in January. And still the Fed won't raise margin requirements. It all convinced me that Alan Greenspan's chief worry is -- if the stock market collapses, he'll be blamed.

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About once a day some one asks, "Hey Russell, when are you going to retire?" My answer is always, "Retire to what? Hey, I'm having fun." But I can understand their question. I'll be 76 on July 22. But so what -- aside from my wife and kids, the market is still my main fascination, that along with world events. And I'm sorry to admit it but unlike wife Faye, I don't play golf.

* *

One of the methods of growing old healthfully is to avoid stress. Along these lines there's a very smart doctor down at the Univ. of Arizona (clinical professor of internal medicine) who specializes in natural or I call it creative

medicine. He's Dr. Andrew Weil. He has some extremely instructive CDs on breathing correctly, and he publishes a very helpful report called "Self Healing." I'm very impressed with both the tapes and the report (888 523 3296).

* *

Evidently, I'm not the only one who believes in avoiding stress. According to *USA Today* (Feb. 29) CEOs are retiring, resigning or getting fired at the rate of five a day. CEOs are under increasing pressure by corporate boards to do the job (translation: move the stock up) or hit the road. Typical example -- John Reed of Citigroup is resigning, Sandy Weill, the co-CEO says he will quit in a year or two and Robert Rudin, a third power at Citigroup says that he absolutely does not want the job of CEO.

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The euro, Europe's new "everybody's currency," has dropped 17% against the dollar since it was first issued. As a European, if you have assets or US securities they are worth less against your euro holdings. But the fact is that you don't hear a lot of complaints out of Europe regarding their fading currency. Why? Because the "cheap" euro allows a big advantage to European businesses, particularly those who export.

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January saw a record $39.9 billion pour into mutual funds, mostly into tech-oriented funds. February's figures should also be huge. On top of that, margin accounts on the NYSE have surged to record highs. Option buyers are buying twice as many calls as puts. No question about it -- this is one of the wildest and most frenzied markets in Wall Street history. Never has the American public been more bullish about stocks and the thesis of "growth forever."

* *

I always watch the price of a seat on the NYSE, since seat prices, at least in the past, have pretty much aligned themselves with the trend of stocks. Last August 23 a seat sold for a record $2.65 million. The latest bid for a seat is $1.7 million while one is offered for $2 million. Of course, there's talk of the NYSE merging with the Nasdaq and there's talk of stiff competition coming from a consortium of large firms who will be making their own market on the Internet.

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A subscriber sent me a list of just a few things that we geezers never knew about when we were 21. TV, penicillin, polio shots, frozen foods, Xerox, plastics, contact lenses, the pill, radar, credit cards, split atoms, laser beams, ballpoint pens, pantyhose, computers, calculators, dishwashers, clothes dryers, electric blankets, air conditioners, drip-dry clothes, fast food, instant coffee, software, pizzas, FM radio, tape decks, group therapy, heart bypasses, electric typewriters, artificial hearts, MRIs, word processors, yogurt, tape decks, rock music, sex changes, gay rights, computer dating. All this after 1945.

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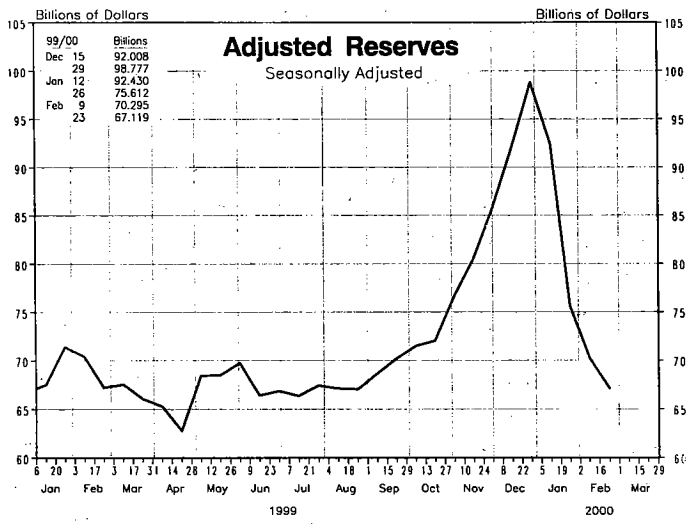
Quietly, the Fed has been pulling back "Adjusted Reserves"; This chart from the St. Louis Fed tells the story. Shhhh.



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Muni bonds, the "forgotten investment." For some reason, tax-free muni bonds have been very slow to lift off their recent lows. This chart shows their labored progress to slightly higher levels. Many good munis offer yields of around 6%. Here in high-tax California, if you're in the top bracket you're paying over 50% of your income to the Feds and the state. A Calif. muni bond yielding 6% is worth near 12% for Californians. And that's pretty attractive, at least it is to this character.

* *

Women: In 1996 (latest statistics) 120,000 more bachelor degrees were awarded to women than to men. Women now outnumber men in law schools and in medical schools. A recent study shows that 40% of college women intend to get a doctorate degree as against 15% of the men. Women are voting in increasing numbers. I've already labeled the new decade the "Decade of Women." Most people don't realize it yet, but women are the wave of the future. I think it's only a matter of time before we have a woman president. And I'm all for it. The men have messed up long enough, let's give a woman a chance.

* *

Speaking of statistics, the US now has over 2 million men and women in prison, the majority being incarcerated for drug offences. The cost of keeping all these people in prisons - $40 billion a year. Says Vincent Schiraldi, executive director of the Justice Policy Institute, "This is the most punishing decade on record." He noted that in 1990 1 million people were in prison. To double that, to add another 1 million in just 10 years, is to equal the growth of the prison population during the previous 90 years. **Russell Comment:** Insanity, I know of nobody who believes we are winning the war against drugs. But no politician will even suggest any other alternative, such as legalizing drugs, much as we legalize alcohol or cigarettes.

* *

Prop.1A (allowing expanded gambling, Vegas style, on the Indian reservations) passed by a huge margin of two-to-one -- so California's Indians are now on the "gaming" war path. There are 11 Indian tribes in San Diego county and only three tribes now have gambling casinos. The other eight will soon be building their own casinos. Three companies have committed to invest $100 million to build and manage tribal casinos, the three are Harrah's Entertainment, Anchor Gaming and Station Casinos. Donald Trump (you remember him) has just signed an agreement with the Indio tribe (they're located only 20 miles east of Palm Springs) in which Trump is going to invest $60 million with the tribe to expand and build and glamorize their casino. Trump has never had anything to do with Las Vegas, but he's certain that he can siphon off a lot of Vegas gambling money with the help of the Indio casino. **Russell Comment:** Do I think that over time and with the new rules California gambling is going to hurt Vegas? **Answer**: You bet I do. One-third of the visitors to Vegas come from California. And Palm Springs is only a two hour drive from LA.

* *

When AOL takes over Time Warner, it will also be taking over $17.8 billion in TWX's debt. This will burden AOL with "goodwill." An acquiring company has to write off the premium that it pays in excess of the purchased company's net worth, or book value, as goodwill. This would mean an amount of about $150 billion, according to a tax accountant at Lehman. And that would lead to annual bookkeeping charges against earnings of about $7.5 billion for 20 years. AOL's profit for the 12 months ended Sept 30 was $879 million. Is it any wonder that AOL is down from its high of 95 set last December?

* *

Greed is taking over the US to the point where the March 10 *NY Times* published an article discussing wealthy parents' problems in explaining to their kids why they were enjoying such privileges. "Daddy, why are we flying in a private plane?" asked the daughter. The answer, "We made some right moves and we were also very lucky." At parties the complaint is that "nobody talks about anything but how much money they've made or whose house is the biggest." **Russell Comment:** It's a phase and it's happened before. If you walk along upper Fifth Avenue in NYC you'll see the huge mansions that were built during the late-1800s or early-1900s by the titans of their day. But it's well to remember that everyone on the planet undergoes the same two experiences -- birth and death. From that standpoint, life is a democracy. It's just what happens in between the two experiences that is different.

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Just to be philosophical, I've found that everything is life is a trade-off. I've never met, read about or heard about who was a total winner. Who's better off, the depressed multi-millionaire whose wife has just filed for divorce -- or the money-short factory worker who loves his wife and his family? Take your choice. I don't know the answer.

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IBM has teamed up with Fidelity, Bell Atlantic and others as it searches for streamlined non-PC ways of going online. So IBM is getting into the appliance business or I should say the Internet appliance business. The device due out in the third quarter consists only of a screen and a keyboard, and it has a chip which gives it the means of connecting directly with the Internet. Once connecting with the net, it uses software from the Web, while data storage is done remotely. Fidelity Investments Ltd. is partnering with IBM to develop a net appliance to offer to its 6 million investors.

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In the meantime, the two **key words** are WIRELESS and CONTENT (content, meaning anything on the Internet that is worth looking at). Along these lines, Brad Silverberg (one of Microsoft's top people) and seven other MSFT alumni have joined with two executives from Nextlink Communications to form Ignition Corp. Ignition is one of the first investment firms devoted entirely to developing or investing in wireless Internet start-ups. Ignition has already raised $100 million from Qualcomm, Internet investment giant Softbank Coro and Seattle's Madrona Venture Group. The 10 partners kicked in $40 million of their own. Their goal - to develop a new generation of "smart" wireless handheld phones. Last year 5.7 million people had wireless access to the Internet. By 2004 it is expected that 1.3 billion people will have wireless access. The wave of the future is non-PC devices which will allow entrance to the Internet. From my own experience I note that fully one-third of my own subscribers are not on the Internet (most think it is too difficult).

* *

Peggy Noonan is one of my favorite political writers. She was one of Ronald Reagan's leading speech writers. Noonan has just come out with a new book "The Case Against Hillary Clinton." The book was reviewed in the March 16 *WSJ*. The *Journal* considers this a fair book, not one written by a "Clinton-hater." Writes the Journal, "It's a level headed argument against the election of a woman who she feels is vacuous, hypocritical, indifferent to the hardships of people she publicly champions and manipulative. In short, a sordid symbol of what Ms. Noonan sees as the degradation of American society." **Russell Comment**: If Hillary is elected to the Senate, I have no doubt that she will consider that a stepping stone to the presidency. I have nothing against a woman president; in fact, I'd love to see that happen. But I hope that Hillary's political journey stops with her being soundly defeated in New York. I've had enough of the Clintons, both of them. To my mind, they're both a disgrace to the American political system.

* *

An important article on the op-ed page of the March 24 WSJ was entitled, "Big-Cap Tech Stocks Are a Sucker Bet." The article states that when big-cap stocks run up to

the point where they are selling at 50 or more times earnings, history shows that they will not keep up with the S&P over the long term. The article includes this run-down of current big-cap stocks with P/Es of above 100. The article states that "our bifurcated market has been driven to an extreme not justified by history . . . Value comes from the ability to sell above cost, not from sales."

Unsustainable Values

Large-cap companies with price/earnings ratios over 100

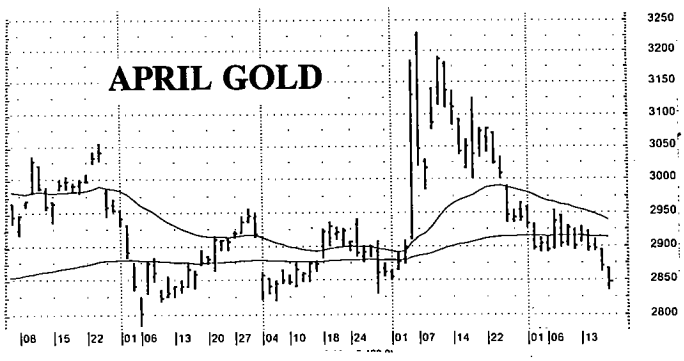
COMPANY	MARKET CAP (3/7/00, in bil.)	1999 P/E	EST. GROWTH	P/E IN 5 YRS.	P/E IN 10 YRS.
Cisco Systems	$452	148.4	29.5%	73.9	40.9
AOL/Time Warner	232	217.4	31.5	100.0	51.1
Oracle	211	152.9	24.9	91.3	60.5
Nortel Networks	167	105.6	20.7	74.5	58.4
Sun Microsystems	149	119.0	21.1	82.8	64.0
EMC	130	115.4	31.1	54.0	28.1
JDS Uniphase	99	668.3	44.0	195.5	63.5
Qualcomm	91	166.8	37.3	61.8	25.5
Yahoo!	90	623.2	55.9	122.6	26.8
15 non-tech	2,361	30.4	13.7	23.8	20.3
S&P 500	11,281	28.6	12.5	23.8	21.3

Source: Bloomberg

NEXT MAILING: April 12, 2000

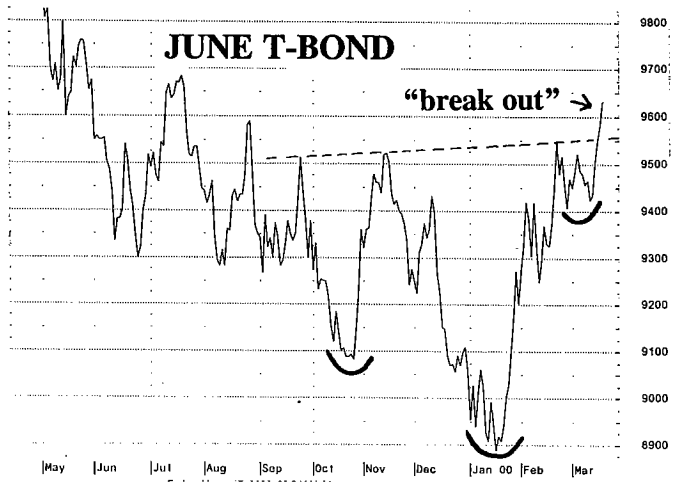
GOLD: What can you politely say about gold here? As you can see on the chart, last week April gold dropped below both its 34 and 144-day moving averages, closing in the mid-280s area. If you're rooting for gold, that has to be discouraging. Technically the single plus is that the 34-day MA has not yet dropped below the longer 144-day MA.

What would it take to turn gold bullish? The first step would be a reversal to the upside with April gold moving above its 34-day MA, which now stands at 294. Did you ever think you'd see oil over 30, the Dow over 10000, diamond prices sky-high and gold wallowing around in the 285 area? I'm not talking about chicken liver, I'm talking about gold!!



BONDS: I like the bonds, mainly because I think they represent **great value compared with stocks.** And over the last two months I've bought a lot of bonds. But I must admit that I'm a bit puzzled by the strength of bonds in the face of the Greenspan threats. Does the bond market simply disbelieve what Greenspan is saying? Or does the bond market sense a business slowdown or even a recession somewhere ahead?

At any rate, the June bond contract has etched out a very powerful head-and-shoulders bottom pattern, and last week the bonds rallied through upside resistance. On a strictly technical basis, this upside breakout allows for a further major rise in the bonds. And, of course, the stock market likes nothing better than a rising bond market with its accompanying declining interest rates.



LATE NOTES: The Fed used to use surprise as one of its weapons. No more; now the Fed takes pains not to surprise the market. Of course, Greenspan's great fear is that in doing something "wrong," he might send the stock market spiraling down and in so doing, throw the economy into recession. **And the problem is that the stock market IS the economy now.** The result -- Greenspan has been "sterilized," so to speak, or should we say Greenspan has been rendered an "economic non-event." At least, that's the way the market sees it. The market is saying that Greenspan hasn't got the guts to really hurt the stock market. So far, the stock market's been 100% correct.

The adrenaline in this market is still the tech stocks, even though the Dow did enjoy a great upward bounce last week. The Nasdaq 100 is still the average that is the financial "gasoline" under this market.

The two-day break of March 14 and 15 violated a short-term rising trendline on the Nasdaq 100. I'm curious to see whether the rally that followed can take the Nasdaq 100 to a new high above the March 10 record high of 4587.16.